

**COUNTY OF SAN LUIS OBISPO BOARD OF SUPERVISORS
AGENDA ITEM TRANSMITTAL**

(1) DEPARTMENT Risk Management	(2) MEETING DATE 6/16/2015	(3) CONTACT/PHONE Tami Douglas-Schatz (805) 781-5959	
(4) SUBJECT Request to approve a FY 2015-16 through FY 2017-18 contract with Intercare Holdings Insurance Services, Inc. (Intercare) in the total amount of \$1,094,133 for Workers' Compensation Program claims administration services. All Districts.			
(5) RECOMMENDED ACTION It is recommended that the Board 1) approve and direct the Chair to sign a three-year contract with Intercare for Workers' Compensation Program third party administration (TPA) services effective July 1, 2015; 2) authorize the Auditor-Controller and Risk Management to set up the necessary banking arrangements for the new contract, including the pre-funding of a bank account in the amount of \$300,000 from the Workers' Compensation Fund, for the payment of claims.			
(6) FUNDING SOURCE(S) Workers' Compensation Fund, FC 408	(7) CURRENT YEAR FINANCIAL IMPACT \$0	(8) ANNUAL FINANCIAL IMPACT \$355,522	(9) BUDGETED? Yes
(10) AGENDA PLACEMENT <input checked="" type="checkbox"/> Consent <input type="checkbox"/> Presentation <input type="checkbox"/> Hearing (Time Est. ____) <input type="checkbox"/> Board Business (Time Est. ____)			
(11) EXECUTED DOCUMENTS <input type="checkbox"/> Resolutions <input checked="" type="checkbox"/> Contracts <input type="checkbox"/> Ordinances <input type="checkbox"/> N/A			
(12) OUTLINE AGREEMENT REQUISITION NUMBER (OAR)		(13) BUDGET ADJUSTMENT REQUIRED? BAR ID Number: <input type="checkbox"/> 4/5 Vote Required <input checked="" type="checkbox"/> N/A	
(14) LOCATION MAP N/A	(15) BUSINESS IMPACT STATEMENT? No	(16) AGENDA ITEM HISTORY <input checked="" type="checkbox"/> N/A Date: _____	
(17) ADMINISTRATIVE OFFICE REVIEW Reviewed by Leslie Brown			
(18) SUPERVISOR DISTRICT(S) All Districts			

County of San Luis Obispo



TO: Board of Supervisors

FROM: Human Resources/Tami Douglas-Schatz

DATE: 6/16/2015

SUBJECT: Request to approve a FY 2015-16 through FY 2017-18 contract with Intercare Holdings Insurance Services, Inc. (Intercare) in the total amount of \$1,094,133 for Workers' Compensation Program claims administration services. All Districts.

RECOMMENDATION

It is recommended that the Board 1) approve and direct the Chair to sign a three-year contract with Intercare Holdings Insurance Services Inc. (Intercare) for Workers' Compensation Program third party administration (TPA) services effective July 1, 2015; 2) authorize the Auditor-Controller and Risk Management to set up the necessary banking arrangements for the new contract, including the pre-funding of a bank account in the amount of \$300,000 from the Workers' Compensation Fund, for the payment of claims.

DISCUSSION

The County's Workers' Compensation Program is one of several programs run by the Risk Management division of the Human Resource Department. The Workers' Compensation Program has been established to manage risk from employee work related injuries/illnesses. The program emphasizes timely, appropriate medical care for injured workers, return to work, accident prevention, and litigation management. The team constructed to execute the Worker's Compensation Program includes the following: inside counsel, outside counsel, consultant, and claims administration – and is managed by a County Risk Management Analyst and Return to Work Coordinator.

Since the 1970's, the County has contracted with outside firms for the claims administration portion of the Workers' Compensation Program. These firms, referred to as third party administrators (TPA), carry out the day-to-day claims management activities and ensure all claims-reporting and legal requirements are met. This includes such activities as: investigating claims, adjusting and settling claims, coordinating payment of benefits to employees and service fees to medical providers, maintaining claim documentation, monitoring defense plans and costs for litigated claims, reporting claims to the County's excess insurer (i.e. CSAC – Excess Insurance Authority), and maintaining an automated claims reporting system.

In April 2004 the County contracted with Sedgwick, CMS (formerly known as Octagon Risk Services) for TPA services. At that time the County had over 470 open claims and received more than 250 new claims per year. Total workers' compensation liabilities were estimated at more than \$26.7 million and annual workers' compensation payments exceeded \$4.9 million that year. More than \$900,000 of the \$4.9 million was for temporary disability benefits and medical payments comprised more than \$2.4 million of the total. The County did not have a Return to Work Program at that time.

Since implementation of the current working model of our Work Comp Program in 2005 (which includes a Return to Work Program, counsel, technical consultant, Risk Analyst, and TPA) the County has seen steady reductions throughout the program for the last 10 years. Now the County averages just 225 open claims (less than half former levels) and receives fewer than 180 claims per year – a 30% reduction. Total workers' compensation liabilities are estimated at below \$14 million (48% reduction) and annual workers' compensation payments are expected to be \$2.5 million at the end of FY 2014/15 (50% reduction). Just over \$700,000 of the \$2.5 million was for temporary disability benefits, and medical payments comprised just over \$1 million (50% reduction) of the total. The County's Work Comp Program is considered

exemplary, with average losses per \$100 of payroll (\$1.01) less than half the CSAC-EIA average (\$2.09).

The County periodically looks to the market seeking competitive proposals for TPA services, and has for the last two 5-year terms selected and used Sedgwick, CMS as our Third Party Administrator. As our existing 5-year agreement with Sedgwick approached its end date, the County solicited proposals through a formal RFP process to identify the best vendor for TPA services for the next 3-5 year term. Risk Management, in compliance with the County purchasing policy, used a competitive purchasing process and received proposals from four vendors. One of the 4 proposals was from our existing vendor. While we have enjoyed great program success working with this vendor, they are well known as a premium-priced option, and their recent proposal reflected this. In addition to the value of our strong team approach, our internal program management capabilities have increased in recent years such that we can seek a more cost conscious choice for TPA. We have selected Intercare from among these four proposals for the following reasons:

1. Public Sector Experience-Intercare has over 15 years of experience handling municipal and County clients. Over 60% of Intercare's business is managing workers' compensation claims for California public entities with 98% client retention.
2. Program/Services-Intercare has a partnership approach for proactive management of our claims, cost effective use of ancillary services (bill review, case management, legal, etc.) and documented control and reduction in total cost. In addition, Intercare brings the following programs:
 - InterConnect Program – In addition to traditional phone and correspondence contact, the adjuster will visit the non-litigated injured worker at County facilities (monthly) to discuss their benefits, settlement documents and/or answer other questions or concerns the injured worker may have about their claim. This service allows Intercare to accommodate a wider range of claimants, and assure proper medical care for injured workers while aggressively pursuing closure. Through proactive efforts, the adjusters are able to reduce the County's time in addressing injured worker issues, reduce litigation rates, close claims sooner and minimize financial exposure for the County.
 - InterAct Program – In addition to regular file reviews, Intercare offers round table strategy meetings for complex and hard-to-close claims. The stakeholders meet and agree on an aggressive action plan with the objective to move claims to a faster resolution.
 - In-house Special Investigations Unit – Intercare's in-house SIU is committed to identifying fraudulent claims and pursuing these cases. They raise awareness through training employers to identify fraudulent acts, and reduce cost through increased detection and successful prosecution.
3. Cost/Staffing-Intercare's competitive pricing and value added programs demonstrate a partnership approach with proactive management of our claims, cost effective use of ancillary services (bill review, case management, legal, etc.) and documented control and reduction of total costs. The proposed contract represents an increased staffing commitment to our program over existing services, while saving approximately \$200,000 per year over recent costs.

OTHER AGENCY INVOLVEMENT/IMPACT

County Counsel has reviewed and approved the contract as to form and legal effect. General Services/Purchasing managed the RFP process and negotiated the agreement with Intercare.

FINANCIAL CONSIDERATIONS

The contract compensates Intercare a flat service rate of \$355,522 for FY 2015/16; \$362,332 for FY 2016/17; and \$376,279 for FY 2017/18 for services provided. Parties can negotiate a 2-year extension to this contract, at a rate of 2% per year over the prior year's amount. Funds for this contract will come from the Work Comp Fund Center 408, and have been adequately budgeted for the proposed new contract in the 2015/16 requested budget.

Banking Arrangements-Under the terms of the agreement, the County must set up a bank account that funds the claims

payout expenses, and pre-fund it with an initial \$300,000 from the Workers' Compensation budget. This account will then function like a revolving account, with the County replenishing it every two weeks in an amount equal to what has been drawn out. This is the standard arrangement for TPA's.

RESULTS

Continued high quality, Workers' Compensation Program TPA services while saving approximately \$200,000 per year over recent costs with a controlled 2% increase to contract fees for two subsequent fiscal years.

ATTACHMENTS

Intercare Contract and Scope